

November 16, 2004

VIA HAND DELIVERY

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station, Second Floor
Boston, MA 02110

Re: *Western Massachusetts Electric Company*, D.T.E. 04-106

Dear Secretary Cottrell

Pursuant to G.L. c. 164, § 94 and 220 C.M.R. 5.00 *et seq.*, Western Massachusetts Electric Company ("WMECO" or "Company") hereby seeks approval from the Department of Telecommunications and Energy ("Department") of settled rates pursuant to an agreement among the WMECO, the Attorney General of the Commonwealth of Massachusetts ("Attorney General"), and the Associated Industries of Massachusetts ("AIM") (collectively, the "Parties"). Rate tariffs reflecting the settled rates are enclosed and are to be effective January 1, 2005, for consumption on and after that date. Pursuant to 220 C.M.R. 5.03, this is WMECO's Letter of Explanation. A filing fee of \$1,700 is enclosed which includes a \$100 application fee and \$100 per proposed tariff.

The terms of the rate agreement among the Parties are contained in the Settlement Agreement filed with the Department herein. In summary, WMECO's distribution rates will increase by \$6 million in 2005 and a further \$3 million in 2006. Importantly, however, these increases will be entirely offset in the years 2005 and 2006 by a reduction in WMECO's transition charge, a charge levied on a per kilowatthour basis to all customers. As described in the Settlement Agreement, on or after January 1, 2007, distribution rates will remain at 2006 levels unless otherwise changed.

There are also other important benefits to WMECO's customers in this settlement. Among these are: (1) an earnings sharing mechanism such that customers will share if the Company's return on equity exceeds 11 percent; (2) the expansion of the NUStart program, a program intended to provide technical and other assistance to aid low-income customers seriously delinquent in their electric bill payments; (3) a commitment by WMECO to inform its customers on an annual basis of its service quality for the previous year; and (4) planning with the Attorney General on a service quality program.

In support of the rate case settlement agreement among the Parties the following documents are submitted:

1. Transmittal Letter – Director of Rates
2. Joint Motion for Approval of Settlement Agreement
3. Settlement Agreement
4. For 2005 rates:
 - (a) Proposed rate tariffs to be effective January 1, 2005;
 - (b) Redlined rate tariffs;
 - (c) 2005 distribution and transmission rate calculation;
 - (d) Inflation calculation;
 - (e) Comparison of price cap against proposed rates;
 - (f) Comparison of current rates against proposed rates;
 - (g) Bill comparisons for Standard Offer customers;
 - (h) Revenue summary and workpapers by rate and functional category; and
 - (i) Retail transmission tracker.
5. For 2006 rates:
 - (a) Proposed rate tariffs effective January 1, 2006;
 - (b) Redlines rate tariffs;
 - (c) 2006 distribution and transmission rate calculation;
 - (d) Comparison of current rates to proposed rates;
 - (e) Bill comparisons for Standard Offer service.
 - (f) Revenue summary and workpapers by rate and functional category; and
 - (g) Retail transmission tracker.

Illustrative rate tariffs and bill impacts for 2006 are submitted because the Settlement Agreement covers rates in that year. However, the 2006 tariffs will be submitted to the Department for formal implementation at an appropriate date next year.

In the event WMECO had not reached agreement with the Parties on the Settlement Agreement, WMECO was prepared to file (and remains prepared to file) a rate case requesting a rate increase of \$16.931 million. In support of this revenue deficiency, WMECO Exhibit C is attached hereto.

While the Company believes it has and can further make a case for the revenue increase of \$16.931 million, it is also cognizant of the time and resources required on all sides to adjudicate a rate case request and the impact of such an increase on WMECO's customers. In consideration of all these factors, WMECO has reached the Settlement Agreement presented today. Accordingly, WMECO requests that this rate case filing be resolved by the Department by approving the settlement filed today by WMECO, the Attorney General and AIM.

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Thank you for your consideration of this request.

Very truly yours,

Stephen Klionsky

Enclosures

cc: Paul G. Afonso
James Connelly
W. Robert Keating
Eugene J. Sullivan, Jr.
Deidre K. Manning
Andrew O. Kaplan
John J. Geary
Kevin Brannelly
Sean Hanley
Paul Osborne
Service List, D.T.E. 97-120 (updated)